Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying general purpose financial statements of the State of Arkansas (the "State") conform with accounting principles generally accepted in the United States of America ("GAAP") for governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. The financial statements of the State's colleges and universities have been prepared in accordance with the accounting guidance as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers ("NACUBO"), and pronouncements issued by the GASB.

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration, Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

The Reporting Entity - For financial reporting purposes, the State of Arkansas' primary government includes all funds, account groups, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

Individual Component Unit Disclosures - GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions; or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

Blended Component Units - The State has no blended component units.

Discretely Presented Component Units - Discrete component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority ("ASLA") and Arkansas Development Finance Authority ("ADFA") meet the criteria of discretely presented component units because they are legally separate, and the State is financially accountable. The State appoints a voting majority of the organization's governing body and is able to impose its will on ASLA and ADFA. The Component Units column of the combined financial statements include the financial data of the following entities:

> ***Arkansas Student Loan Authority*** - ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

Arkansas Development Finance Authority - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Component Unit Financial Statements - Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority	Arkansas Development Finance Authority
101 East Capitol, Suite 401	100 Main Street, Suite 200; P.O. Box 8023
Little Rock, AR 72201	Little Rock, AR 72203

Fund Structure - The financial activities of the State are accounted for in individual funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Individual funds of the primary government are classified in four fund categories: governmental, proprietary, fiduciary, and higher education.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities.

The following describes the fund categories and account groups used in the accompanying general purpose financial statements:

Governmental Funds

General Fund - The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State which are not accounted for in other funds.

Proprietary Fund

Enterprise Fund - This fund is used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the Workers' Compensation Commission ("WCC"), which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment, the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities, and the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other funds. These funds include expendable trust, pension trust, and agency funds. Pension trust funds are accounted for on the accrual basis. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Higher Education Fund

The financial statements of Higher Education have been prepared with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the NACUBO and pronouncements issued by the GASB.

Current Funds - These funds are used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (1) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and (2) restricted funds which may be utilized only in accordance with externally restricted purposes.

Fiduciary Funds - These funds are used to account for assets held by loan, endowment, life income, and agency funds in which the universities act in a fiduciary capacity.

Plant Funds - These funds are used to account for institutional property acquisition, renewal, replacement, debt service, and investment.

Agency Funds - These funds are used to account for amounts held in custody for students, university-related organizations, and others.

The Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

Account Groups

General Fixed Assets - This account group is used to account for all fixed assets (excluding infrastructure) that are not accounted for in the proprietary fund, pension trust funds, higher education fund, or component units.

General Long-Term Debt - This account group includes the unmatured portion of the long-term general obligation debt which is to be financed from governmental funds. Also included in this group are long-term liabilities resulting from capital lease obligations, notes payable, claims and judgments, compensated absences, and unfunded pension costs.

Discretely Presented Component Units

The State's discretely presented component units conduct business-like activities that provide goods/services to the public, other governmental units, and the State, and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position, and cash flows.

Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus as described below. The revenue, expenditure and expense recognition policies have been applied in the determination of the related assets and liabilities at June 30, 2001.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State's revenue recognition policies conform to the provisions of GASB Statement No. 22, *Accounting for Tax-Payer Assessed Tax Revenues in Governmental Funds*. Significant revenues susceptible to accrual include income, sales, corporation and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when purchased, and (2) principal and interest on long-term debt are recorded when paid.

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the proprietary fund, pension trust funds, higher education fund, and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Consistent with current GAAP for public colleges and universities, depreciation on higher education physical or plant assets is not recorded, and revenue and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted.

Agency funds are custodial in nature (assets equal liabilities) and are accounted for on a modified accrual basis of accounting.

Budgetary Basis of Accounting **-** The State's budget is adopted in accordance with a statutory cash basis of accounting which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

Cash and Cash Equivalents **-** Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit, and all short-term instruments with maturities at purchase of ninety days or less. Short-term investments are stated at fair value, except for agency funds not held for investment purposes which are reported at amortized cost.

Investments - Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations, and corporate debt and equity obligations. Investments are reported at fair value, except for agency fund investments not held for investment purposes, which are reported at amortized cost. The General and Higher Education Fund Investments are stated at fair value as determined by independent quoted market sources.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Unrealized gains and losses on investments are included in investment earnings on the respective operating statements.

The University of Arkansas System (the "System") has established an investment pool (the "Pool"). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is not SEC-registered. Participation in the Pool is voluntary. At June 30, 2001, four universities and two foundations participated in the Pool. These foundations hold approximately $313 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in an agency fund. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Receivables - Receivables in the State's governmental fund consist primarily of taxes, loans, interest and federal grants. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt. Receivables in all other funds have arisen in the ordinary course of business.

Interfund Transactions - The State has three types of interfund transactions:

- Operating appropriations. These are accounted for as operating transfers in the funds involved.
- Residual equity transfers. These are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from fund equity.
- Quasi-external transactions. Charges or collections for services rendered by one fund to another are recorded as revenues in the receiving fund and expenditures/expenses of the disbursing fund.

Inventories - Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased. Inventory balances are recorded as a reserve of fund balance indicating that they do not constitute "available spendable resources."

Fixed Assets - Purchases of general fixed assets of the governmental funds are recorded as expenditures of those funds, with the related assets recorded in the General Fixed Asset Account Group. General fixed assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets ("infrastructure"), consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems, are not capitalized as these assets are immovable and of value only to the government. Assets in the General Fixed Asset Account Group are not depreciated.

Fixed assets held in the enterprise funds and discretely presented component units have been valued in the same manner as the General Fixed Asset Account Group. The fixed assets of these funds are depreciated on a straight-line basis over their estimated useful lives. Buildings are depreciated over various lives, ranging from 20 to 50 years, machinery and equipment 3 to 35 years and vehicles 5 years.

Contributed Capital - The Revolving Loan Funds record contributed capital for federal and state grants used to fund the programs. As grants are received, the State recognizes such grants as direct contributions to equity.

Compensated Absences - The amount of compensated absences to be paid from future resources is reported in the General Long-Term Debt Account Group. Vested or accumulated vacation leave of the proprietary, higher education fund and component units is recorded as an expense and an accrued liability of these funds as the benefits accrue to employees.

Equity - Reserves represent those portions of equity that are not available for appropriation or legally segregated for a specific future use.

Total Columns (Memorandum Only) - Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Future Adoption of Accounting Pronouncements - The GASB has issued Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 34 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the public institution's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 35 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 37 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 38, *Certain Financial Statement Note Disclosures*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 38 for the fiscal year ending June 30, 2002.

Reclassifications - Certain reclassifications have been made to the 2000 financial statements to conform to the June 30, 2001, presentation.

NOTE 2: BUDGETARY BASIS REPORTING - BUDGETARY PROCESS

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the “Stabilization Law”) to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific “internal sub funds” (i.e. general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State’s elected constitutional offices (legislators, executive department and judges), their staffs and the Department of Finance and Administration (“DF&A”). The balance is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 11/2% of all special revenues collected by other agencies are first distributed to provide support for the State’s elected officials, their staffs and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, “A,” “B” and “C”. Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies’ funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal sub-funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature.

The majority of the State’s appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotments which restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used, and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, over-time, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements, and other special classifications. Budgetary control is maintained through the Arkansas Accounting Federal Grants Management System ("AFGM"). AFGM ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

An AFGM report, internally identified as AFGM R5901, is used by DF&A to monitor spending against budget. This report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure.

The State uses the General Fund to summarize the internal sub-funds, which represent accounts or activities that have been legally appropriated.

The following is a reconciliation of the statutory cash basis revenues and other sources under expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Revenues and other sources over expenditures and other uses (statutory basis)	$ 45,805
Non-appropriated excess of revenues and other sources over expenditures and other uses	170,424
Basis of accounting differences	(295,353)
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)	$ (79,124)

Supplemental appropriations of $151 million were required during the fiscal year ended June 30, 2001.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non-interest bearing balances.

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of ninety days or less. The reported amount of total deposits at June 30, 2001, is as follows (expressed in thousands):

	Primary Government	Component Units
Reported amount of deposits	$ 909,966	$ 3,904
Bank balance of deposits	1,219,978	4,767
Amount insured or collateralized with securities held by the State or its agent in the State's name	1,079,450	4,767
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	93,067	-
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	47,461	-

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

	Primary Government	Component Units
Reported amount of deposits	$ 909,966	$ 3,904
Cash on hand	3,966	
Undeposited receipts	15,814	
Cash held at U.S. Treasury	244,409	
Investments disclosed as cash equivalents for GASB 3	(3,125)	(915)
Cash equivalents disclosed as investments for GASB 3	1,523,076	115,497
Cash and cash equivalents as reported on the combined balance sheet	$ 2,694,106	$ 118,486

Investments

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. Government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments are generally stated at fair value, while investments held in an agency capacity and not for investment purposes are reported at amortized cost. In accordance with Statement No. 3 of the GASB, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

Primary Government -

Investments for the Primary Government at June 30, 2001, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Categorized:					
U.S. Government securities	$ 1,515,362	$ 5,302	$ 314,921	$ 1,835,585	$ 1,853,779
Corporate securities	7,530,458	1,348	571,095	8,102,901	8,105,722
International securities	1,115,410		23,282	1,138,692	1,138,692
Repurchase agreements		9,164	56,930	66,094	66,094
Bank obligations			92,985	92,985	92,985
State and local government securities	1,129		34,355	35,484	37,243
Commercial paper	69,016	252		69,268	69,268
Other categorized	13,635	26,027	79,437	119,099	119,099
Total Investments Categorized by Security Type	$ 10,245,010	$ 42,093	$ 1,173,005	11,460,108	11,482,882
Uncategorized:					
Mutual funds				1,434,010	1,434,010
Securities lent for cash collateral				1,338,250	1,338,250
Mortgage obligations				161,162	161,162
Real estate				190,617	190,617
Limited partnership investment				1,323,640	1,323,640
Private placements				60,164	60,164
External investment pool				744,691	744,691
Guaranteed investment contracts				40,842	40,842
Other investments				2,403	2,403
Total				$ 16,755,887	$ 16,778,661

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	$ 16,755,887
Investments disclosed as cash equivalents for GASB 3	3,125
Cash equivalents disclosed as investments for GASB 3	(1,523,076)
Investments as reported on the combined balance sheet	$ 15,235,936

Component Units -

Investments for the Discretely Presented Component Units at June 30, 2001, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Categorized:					
U.S. Government agency obligations	$861,280		$29,897	$ 891,177	$ 891,177
Commercial paper	287			287	287
Total Investments Categorized by Security Type	$861,567		$29,897	891,464	891,464
Uncategorized:					
Investment agreements				312,955	312,955
Mutual funds				116,459	116,459
Total				$1,320,878	$1,320,878

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	$ 1,320,878
Investments disclosed as cash equivalents for GASB 3	915
Cash equivalents disclosed as investments for GASB 3	(115,497)
Investments as reported on the combined balance sheet	$ 1,206,296

NOTE 4: DERIVATIVES

Primary Government -

Forward Currency Contracts

Arkansas Public Employees Retirement System ("APERS") and Arkansas Teacher Retirement System ("Teacher") enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net realized gain or loss on forward currency contracts in the statement of changes in plan net assets. At June 30, 2001, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $224.4 million, collectively. Market values of these outstanding contracts were $215.4 million resulting in an unrealized net loss of approximately $9.0 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of $237.0 million at June 30, 2001. Market values of these contracts were $228.1 million resulting in an unrealized net gain of approximately $8.9 million.

Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System ("ASHERS"), invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see Note 3 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Component Units -

Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10 million of variable rate debt based on the 3-month LIBOR to fixed rate debt with an effective fixed rate of 7.698%. ADFA is exposed to interest rate risk under the swap agreement if the 3-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

ASLA has entered into an interest rate swap agreement to effectively convert $32.65 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 3.8% for the period ended June 30, 2001. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1 and December 1 settlement dates each year. ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 2.65% at June 30, 2001. The interest rate swap agreement is set to expire June 1, 2003.

NOTE 5: SECURITIES LENDING ARRANGEMENTS

State Police, Teacher, and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2000, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, government agency securities and non U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (Note 3); securities on loan for non-cash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the Statement of Plan Net Assets and Combined Balance Sheet. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded in accrued and other liabilities. At June 30, 2001, cash collateral and investments made with cash collateral was approximately $1.38 billion. These securities have also been classified in the preceding summary of deposits and investments (see Note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 2001, was $1.34 billion and total collateral received for these securities on loan was $1.39 billion. At June 30, 2001, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

NOTE 6: SHORT SALES OF SECURITIES

Teacher participates in short sales of securities, as allowed under the prudent investor rule as set forth by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 17, whereby investment securities are borrowed and sold in anticipation of a price decline. If the price declines, the short seller generates a gain and closes out the short position with a purchase of like securities at a cost that is less than the obligation created by the initial borrowing. Because short sale borrowings represent obligations to deliver securities, they are not investments. The code does not specify the types of securities that can participate in such sales. Short sale obligations are marked-to-market and are recorded as a liability as of June 30, 2001, at a fair value of $71.5 million. The short sale transactions are administered by a custodial agent bank.

NOTE 7: RECEIVABLES

Receivables at June 30, 2001, consisted of the following (expressed in thousands):

Primary Government -

	Accounts	Taxes	Employer	Employee	Notes and Deposits	Medicaid	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Fund Type
General Fund	$ 97,228	$290,956			$38,722	$135,174	$191,814	$ 11,789	$ (65,376)	$ 700,307
Enterprise Funds	8,561						189,964	1,261		199,786
Trust and Agency Funds	75,665		$6,573	$7,388				323,934	(22,376)	391,184
Higher Education Fund	716,623				60,503			1,542	(554,732)	223,936
Total	$898,077	$290,956	$6,573	$7,388	$99,225	$135,174	$381,778	$ 338,526	$ (642,484)	$ 1,515,213

Component Units -

	Accounts	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Component Unit
ASLA		$ 234,371	$ 7,549	$ (1,725)	$ 240,195
ADFA	$ 2,195	404,866	8,799	(10,533)	405,327
Total	$ 2,195	$639,237	$16,348	$ (12,258)	$ 645,522

NOTE 8: INTERGOVERNMENTAL ACTIVITY (expressed in thousands)

Interfund Receivables and Payables

	Due from	Due to
General Fund	$ 214	$ 6,563
Trust and Agency Funds - Agency Funds	953	126
Higher Education Fund - Current Funds	5,610	88
Total	$ 6,777	$ 6,777

Intrafund Receivables and Payables

	Due from	Due to
Higher Education Fund:		
Current funds	$ 5,769	$ 10,691
Loan		69
Endowment and similar		931
Plant	7,111	1,253
Agency	83	19
Total	$ 12,963	$ 12,963

Advances to/from Other Funds - Primary Government

	Advances to	Advances from
General Fund	$ 14,769	$ 20,705
Trust and Agency Funds - Pension Trust - Teacher	20,705	
Higher Education Fund - Plant Fund		14,769
Total	$ 35,474	$ 35,474

Operating Transfers

	Operating Transfers In	Operating Transfers Out
General Fund	658	$614,579
Enterprise Fund - Workers' Compensation Commission		658
Higher Education Fund:		
Current Funds	$593,085	
Loan Fund	697	
Plant Fund	20,797	
Total	$615,237	$615,237

NOTE 9: FIXED ASSETS

Primary Government -

Changes in general fixed assets were as follows (expressed in thousands):

	Balance July 31, 2000	Additions	Deletions	Balance June 30, 2001
Land	$ 183,207	$ 9,983	$ 236	$ 192,954
Buildings	648,491	38,862	9,957	677,396
Equipment	245,133	22,473	15,693	251,913
Construction in progress	113,839	55,258	28,405	140,692
Total	$1,190,670	$126,576	$54,291	$1,262,955

At June 30, 2001, fixed assets by category in other funds consisted of the following amounts:

	Enterprise Funds	Pension Trust Funds	Higher Education Fund
Land	$ 831		$ 141,759
Buildings	2,034		1,518,790
Equipment	1,804	$ 2,605	649,451
Construction in progress			222,185
Other	158		
Subtotal	4,827	2,605	2,532,185
Less: Accumulated Depreciation	(1,823)	(1,227)	
Total	$ 3,004	$ 1,378	$2,532,185

Component Units -

At June 30, 2001, fixed assets reported in the State's discretely presented component units consisted of the following amounts:

Equipment	$ 1,037
Less: Accumulated Depreciation	(523)
Total	$ 514

NOTE 10: SUMMARY OF LONG-TERM DEBT

The State records its long-term liabilities in the General Long-Term Debt Account Group. These liabilities include general obligation bonds, special obligations bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component unit, claims and judgments payable in future years, accrued compensated absences, and net pension obligation.

The following schedule shows the changes in the General Long-Term Debt Account Group for the year ended June 30, 2001 (expressed in thousands):

	Balance July 1, 2000	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2001
Bonds:					
General obligation	$546,172	$18,300	$25,220	$11,937	$551,189
Special obligation	4,580		1,030		3,550
Other debt instruments	4,300		948		3,352
Notes payable to component unit	44,772	13,574	3,599		54,747
Capital leases	23,931	3,422	4,382		22,971
Capital leases with component unit	68,631		7,332		61,299
Claims and judgments	72,505			22,137	94,642
Compensated absences	64,963			7,707	72,670
Net pension obligation	4,591			(1,353)	3,238
Total	$834,445	$35,296	$42,511	$40,428	$867,658

Primary Government -

Governmental Fund Type Operations

General Obligation Bonds - The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 2001, including accrued accreted interest of approximately $62 million on capital appreciation bonds, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G. O. Bonds	2011	5.25 - 5.50	$ 175,000
Soil and Water Conservation Bonds:			
1992A Series Water Resources G.O. Bonds	2021	5.50 - 6.38	13,645
1995A Series Water Resources G.O. Bonds	2024	4.70 - 5.60	4,645
1995B Series Water Resources G.O. Bonds	2025	4.30 - 5.75	6,645
1996A Series Water Resources G.O. Bonds	2017	4.50 - 5.38	10,249
1996B Series Water Resources G.O. Bonds	2025	4.70 - 5.85	6,895
1997A Series Water Resources G.O. Bonds	2026	4.70 - 5.70	13,995
1997B Series Water Resources G.O. Bonds	2026	4.10 - 5.25	13,640
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,425
1992B Series Waste Disposal G.O. Bonds	2020	5.10 - 6.25	8,455
1994A Series Waste Disposal G.O. Bonds	2008	4.75 - 5.50	6,230
1995A Series Waste Disposal G.O. Bonds	2025	4.20 - 5.50	2,235
1996A Series Waste Disposal G.O. Bonds	2025	5.10 - 5.63	4,595
1997A Series Waste Disposal G.O. Bonds	2026	4.10 - 5.25	4,640
1998A Series Waste Disposal G.O. Bonds	2027	4.50 - 5.05	9,510
2000A Series Water, Waste, and Pollution	2022	4.75 - 5.70	5,000
2001A Series Water, Waste, and Pollution	2011	4.65 - 6.30	9,700
2001B Series Water, Waste, and Pollution	2011	3.25 - 4.55	3,600
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.40 - 7.00	14,652
1991B Series, G.O. Bonds	2012	6.45 - 7.00	22,240
1991C Series, G.O. Bonds	2013	6.25 - 6.90	14,828
1993 Series, G.O. Bonds	2014	5.15 - 5.95	17,278
1995 Series, G.O. Bonds	2015	4.60 - 5.90	19,534
1996A Series, G.O. Bonds	2016	4.00 - 5.65	21,655
1996B Series, G.O. Bonds	2016	4.65 - 6.30	15,692
1996C Series, G.O. Bonds	2016	4.40 - 6.00	25,805
1997A Series, G.O. Bonds	2017	4.70 - 6.05	27,410
1997B Series, G.O. Bonds	2017	4.15 - 5.60	26,141
1998A Series, G.O. Bonds	2017	4.00 - 5.35	37,850
Total			$551,189

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 14,306	$ 22,118	$ 36,424
2003	18,864	26,136	45,000
2004	18,714	27,116	45,830
2005	40,292	26,894	67,186
2006	40,966	25,430	66,396
Thereafter	356,047	226,043	582,090
Total	$ 489,189	$ 353,737	$ 842,926

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds - Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of constructing and renovating improvements to interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily by revenues derived from the tax on diesel fuel at the rate of 4¢ per gallon.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds - Act 607 of 1997, authorized the State to issue Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $260 million with no more than $60 million being issued during any fiscal biennum for non-refunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetland preservation facilities projects in the state. The bonds are payable from the general revenues of the State.

State Water Resources Development General Obligation Bonds - Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $100 million with no more than $15 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds - Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

College Savings General Obligation Bonds - Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act provides that no more than $100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds - Special obligation bonds are issued by various state departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 2001, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Vocational and Technical Education - Capital Improvement - 1992 A Series	2012	5.80 - 6.38	$ 860
War Memorial Stadium Commission - Revenue Improvement Bonds - 1999 Series	2004	5.00	2,690
Total			$3,550

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 930	$ 167	$1,097
2003	975	119	1,094
2004	1,025	68	1,093
2005	90	39	129
2006	95	34	129
Thereafter	435	71	506
Total	$3,550	$ 498	$4,048

Details of special obligation bonds outstanding are as follows:

Vocational and Technical Education - The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

War Memorial Stadium Commission - The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1999, dated December 15, 1999, in the amount of $3.5 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code Annotated Sections 22-3-1001 *et seq*. for the purpose of financing the cost of acquiring, constructing, and equipping betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds are payable from net revenues derived by the Commission from the operation of the Stadium.

Other Debt Instruments - Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 2001, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Certificates of Indebtedness:			
State Building Services - 1984 Issue "A"	2004	8.50	$ 736
State Building Services - 1984 Issue "C"	2004	8.50	1,790
State Building Services - 1985 Issue "D"	2004	8.50	755
State Building Services - 1986 Issue "E"	2004	8.50	71
Total			$3,352

Future amounts required to pay principal and interest on other debt instruments at June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$1,028	$ 241	$1,269
2003	1,114	150	1,264
2004	1,210	51	1,261
Total	$3,352	$ 442	$3,794

Details of other debt instruments are as follows:

State Building Services - Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certificates of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to $25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Correction and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

Notes Payable to Component Units **-** Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 3,145	$ 5,106	$ 8,251
2003	3,295	4,960	8,255
2004	3,455	4,799	8,254
2005	3,665	4,629	8,294
2006	3,845	4,461	8,306
Thereafter	37,342	42,268	79,610
Total	$ 54,747	$66,223	$120,970

Proprietary Fund

Construction Assistance Revolving Loan Fund (the "Fund") - ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2001, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined balance sheet due to unamortized discounts of approximately $1.1 million:

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 4,225	$ 5,738	$ 9,963
2003	4,690	5,532	10,222
2004	4,930	5,304	10,234
2005	5,210	5,059	10,269
2006	5,535	4,796	10,331
Thereafter	87,545	30,805	118,350
Total	$112,135	$57,234	$169,369

Higher Education Fund

Colleges and Universities - The Boards of Trustees of State-supported colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 2001, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Henderson State University	2019	3.00 - 6.00	$ 13,428
Southern Arkansas University - Magnolia	2014	3.50 - 6.00	4,660
Southern Arkansas University Tech - Camden	2015	5.25 - 5.54	680
Arkansas State University - Beebe	2023	3.00 - 6.61	5,180
Arkansas State University - Jonesboro	2031	3.00 - 5.88	53,816
Arkansas State University - Mountain Home	2019	4.80 - 5.88	7,348
Arkansas Tech University	2031	3.75 - 6.375	20,725
University of Arkansas at Fayetteville	2022	variable	80,556
University of Arkansas at Little Rock	2010	3.00 - 6.50	25,862
University of Arkansas for Medical Sciences	2019	1.90 - 11.00	88,936
University of Arkansas at Monticello	2018	variable	5,886
University of Arkansas at Pine Bluff	2027	3.625 - 7.01	12,493
University of Central Arkansas	2029	3.00 - 8.00	50,773
University of Arkansas at Hope Community College	2021	5.00 - 5.75	7,410
University of Arkansas Community College at Batesville	2018	variable	4,476
East Arkansas Community College	2012	3.50 - 6.00	1,625
Garland County Community College	2017	3.50 - 4.50	3,550
Mid-South Technical College	2019	4.40 - 5.36	10,050
Mississippi County Community College	2018	5.40 - 6.00	3,105
North Arkansas Community Technical College	2016	4.10 - 6.00	2,783
Phillips Community College of the University of Arkansas	2017	3.90 - 5.00	5,940
Rich Mountain Community College	2005	3.60 - 5.30	360
Westark College	2029	4.00	35,610
Northwest Arkansas Community College	2020	4.80 - 5.85	9,560
Cossatot Technical College	2004	11.00	173
Petit Jean College	2017	4.88	2,430
Pulaski Technical College	2021	variable	9,073
Total			$ 466,488

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 24,323	$ 18,522	$ 42,845
2003	23,502	18,605	42,107
2004	22,723	17,670	40,393
2005	23,037	16,737	39,774
2006	22,609	15,829	38,438
Thereafter	350,294	138,241	488,535
Total	$466,488	$225,604	$692,092

Component Units -

Arkansas Student Loan Authority - Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 2001, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Student Loan Revenue Bonds, Series 1992A-1	2006	5.95 - 6.40	$ 27,045
Student Loan Revenue Bonds, Series 1992A-2	2006	6.75	2,120
Student Loan Revenue Bonds, Series 1993A-1	2006	5.75 - 6.13	2,230
Student Loan Revenue Bonds, Series 1994A	2009	adjustable	53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	adjustable	42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25	14,000
Student Loan Revenue Bonds, Series 1997A	2014	adjustable	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10 - 5.60	17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	adjustable	55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	adjustable	20,000
Total			$271,845

Future amounts required to pay principal and interest on revenue bonds at June 30, 2001, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 13,005	$ 13,101	$ 26,106
2003	6,860	12,389	19,249
2004	3,620	12,117	15,737
2005	2,400	12,117	14,517
2006	8,390	11,854	20,244
Thereafter	237,570	118,332	355,902
Total	$ 271,845	$ 179,910	$ 451,755

Revenue Bonds are reflected in the financial statements net of approximately $22 thousand of discounts.

Arkansas Development Finance Authority - Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

Bonds payable at June 30, 2001, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Single Family Bonds Payable	2032	3.50 - 10.00	$1,015,955
Multi-Family Bonds Payable	2027	3.50 - 9.75	184,886
Development Finance Programs Bonds Payable	2029	3.25 - 10.00	299,676
General Fund Note Payable	2001	3.57 - 3.98	9,700
Total			$1,510,217

Future amounts required to pay principal and interest on ADFA debt at June 30, 2001, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of $394 thousand:

	Principal	Interest	Total
Year Ending June 30:			
2002	$ 165,550	$ 84,260	$ 249,810
2003	45,445	81,367	126,812
2004	51,072	78,363	129,435
2005	51,224	75,072	126,296
2006	53,529	71,686	125,215
Thereafter	1,143,791	813,722	1,957,513
Total	$1,510,611	$1,204,470	$2,715,081

Prior Defeasances

Primary Government -

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $75.3 million are considered defeased at June 30, 2001.

Component Units -

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $66.8 million are considered defeased at June 30, 2001.

NOTE 11: LEASES

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases for the nongovernmental funds are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

The State also has direct-financing lease agreements with ADFA. These leases are reported separately from other capital leases in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered non-cancelable for financial reporting purposes.

Future minimum commitments under operating and capital leases by fund type as of June 30, 2001, were as follows (expressed in thousands):

	Capital Leases	
	GLTDAG	Higher Education Fund
Year Ending June 30:		
2002	$ 9,059	$ 3,975
2003	4,636	3,531
2004	4,181	2,788
2005	3,895	1,746
2006	3,263	689
Thereafter	3,088	22
Total Minimum Lease Payments	28,122	12,751
Less: Interest	(5,151)	(1,479)
Present Value of Future Minimum Lease Payments	$ 22,971	$ 11,272

	Capital Leases with Component Unit		
	GLTDAG	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2002	$ 8,041	$ 242	$ 154
2003	8,035	241	157
2004	8,027	244	155
2005	8,017	241	157
2006	8,015	243	159
Thereafter	42,312	1,447	153
Total Minimum Lease Payments	82,447	2,658	935
Less: Interest	(21,148)	(852)	(182)
Present Value of Future Minimum Lease Payments	$ 61,299	$ 1,806	$ 753

	Operating Leases		
	General Government	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2002	$ 12,654	$ 202	$ 5,029
2003	7,462	47	4,167
2004	4,479		2,834
2005	4,178		2,142
2006	2,068		1,289
Thereafter	9,785		103
Total Minimum Lease Payments	$ 40,626	$ 249	$ 15,564

NOTE 12: FUND EQUITY

Designations

Detail of designated general fund balance as of June 30, 2001, is as follows (expressed in thousands):

Continuing appropriations	$ 60,193
Budget stabilization	1,408,908
Total (memorandum only)	$1,469,101

Designations for budget stabilization reflect the intent of Arkansas financial laws with regard to future use of current financial resources.

Deficit Retained Earnings

The WCC had a $10.7 million deficit in retained earnings as of June 30, 2001. The deficit was generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to change the investment strategy to receive larger investment returns or increase the threshold of claims submitted to the WCC.

The Other Revolving Loan Funds had a $2.1 million deficit in retained earnings as of June 30, 2001. Management of the Other Revolving Loan Funds is confident that the deficit will be eliminated through normal operations.

Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds were as follows:

	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Balance July 1, 2000	$120,924	$14,008	$ 134,932
Capitalization of federal grants	8,351	3,441	11,792
Capitalization of state grants		2,300	2,300
Balance June 30, 2001	$129,275	$19,749	$ 149,024

NOTE 13: PENSIONS

Plan Descriptions **-** The State contributes to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan ("Judicial"), Arkansas Highway and Transportation Retirement Plan ("Highway"), and Arkansas State Police Retirement System ("State Police"). State Police and Judicial are administered by Arkansas Public Employees Retirement System. Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P. O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State also contributes to two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System Board of Trustees, and APERS, administered by the Arkansas Public Employees Retirement System Board of Trustees, which provide retirement, disability and death benefits, and annual cost of living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan	Arkansas Public Employees Retirement Plan
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

For the year ended June 30, 2001, the payroll of State employees covered by the pension plans was approximately $853 million.

Funding Policies - State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	Judicial	Teacher	State Police	Highway	APERS
Number of participating employers/contributing entities	1	411	1	1	798
Contribution rates for the fiscal year ended June 30, 2001 (% of covered payroll):					
State	26.00 %	12.00 %	26.91 %	12.90 %	10.00 %
Plan members - contributory plans	5.0% and 6.0%	6.00 %		6.00 %	6.00%
Annual pension cost (in thousands)	$3,527	$181,116	$5,834	$14,395	$100,926
Contributions made (in thousands)	$4,077	$181,116	$7,105	$14,395	$100,926

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

Fiscal Year	Plan	Annual Required Contribution	Percentage Contributed
2001	Teacher	$181,116	100 %
	APERS	100,926	100 %
2000	Teacher	$175,687	100 %
	APERS	96,349	100 %
1999	Teacher	$166,786	100 %
	APERS	93,323	100 %

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a non-contributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The non-contributory plan applies automatically to all persons hired January 1, 1978, or later. All non-retired members of the State Police are now covered by non-contributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first $7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as non-contributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 5% and 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with ten or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

Included in the June 30, 2001, investment portfolio of APERS and the State Police plans are the following investments (other than these issued by the U.S. Government) in any one organization that represent 5% or more of plan net assets:

State Police - S&P 500 Index Fund
APERS - S&P 500 Index Fund

The Teacher, Highway, and Judicial plans did not have investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 2001 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation (asset) to Judicial and State Police for the current year is as follows (in thousands):

	Judicial	State Police
Annual required contribution ("ARC")	$ 3,356	$ 5,765
Interest on net pension obligation	(778)	356
Adjustment to annual required contribution	2,075	(369)
Annual pension cost	4,653	5,752
Contributions made	4,077	7,105
Increase (decrease) in net pension obligation/ decrease in net pension asset	576	(1,353)
Net pension obligation (asset), beginning of year	(10,561)	4,591
Net pension obligation (asset), end of year	$ (9,985)	$ 3,238

For Highway, the statutory contributions made by the State equaled the annual required contributions ("ARC") required by GASB 27 for each of the fiscal years that began between December 15, 1986 and June 30, 1996, and therefore the State has neither a transition asset or liability.

No pension liability exists for Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 2001, was equal to the ARC.

Three-year trend information for the single-employer plans is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Judicial	6/30/2001	$ 4,653	87.62 %	$ (9,985)
	6/30/2000	3,126	101.86 %	(10,561)
	6/30/1999	3,150	129.17 %	(10,504)
State Police	6/30/2001	$ 5,752	123.52 %	$ 3,238
	6/30/2000	6,447	109.59 %	4,591
	6/30/1999	6,491	103.96 %	5,209
Highway	6/30/2001	$14,395	100.00 %	N/A
	6/30/2000	13,948	100.00 %	N/A
	6/30/1999	14,499	100.00 %	N/A

Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher or the Teachers Insurance Annuity Association - College Retirement Equities Fund ("TIAA-CREF") or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the Board of Trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary, ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2001, total employer contributions to TIAA-CREF and Fidelity were $38.5 million and $7.1 million, respectively. Employee contributions to TIAA-CREF and Fidelity were $33.7 million and $5.3 million, respectively.

NOTE 14: SEGMENT INFORMATION - ENTERPRISE FUND

Segment financial information for the State's enterprise funds is as follows (expressed in thousands):

Description	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds
Operating revenues	$ 18,493	$ 13,057	$ 687
Depreciation and amortization	174	262	-
Operating income (loss)	(5,934)	5,564	(1,043)
Operating transfers out	658		
Net income (loss)	1,607	5,564	(1,043)
Fixed asset additions	83		
Net working capital	153,697	255,295	17,604
Total assets	175,625	261,513	17,920
Long-term liabilities payable from operating revenues	175,542	111,061	-
Fund equity (deficit)	(10,690)	145,912	17,612

NOTE 15: COMPONENT UNIT DISCLOSURES

The financial statements do not include the financial position or results of operations of foundations or other organizations affiliated with certain higher education institutions. Such organizations are separate nonprofit entities incorporated in the State. Their purpose is to assist affiliated higher education institutions in performing their work and services. Oversight of each organization is the responsibility of separate and independently elected boards of directors not otherwise affiliated with their respective higher education institutions. In carrying out their responsibilities, the boards of directors of the organizations employ management, form policy, and maintain fiscal accountability over funds administered by their respective organizations.

Condensed financial statements of discretely presented component units at June 30, 2001, are as follows (expressed in thousands):

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
Balance Sheet			
Assets:			
Other Assets	$ 301,377	$ 1,749,281	$ 2,050,658
Fixed Assets, net	27	487	514
Total Assets	$ 301,404	$ 1,749,768	$ 2,051,172
Liabilities:			
Other Liabilities	$ 9,507	$ 88,310	$ 97,817
Revenue Bonds Payable	271,823		271,823
Special Obligation Bonds Payable		1,510,217	1,510,217
Total Liabilities	281,330	1,598,527	1,879,857
Fund Equity - Retained Earnings	20,074	151,241	171,315
Total Equity	20,074	151,241	171,315
Total Liabilities and Equity	$ 301,404	$ 1,749,768	$ 2,051,172
Statement of Operations			
Operating Revenues	$ 21,839	$ 142,460	$ 164,299
Operating Expenses	(16,859)	(112,411)	(129,270)
Depreciation and Amortization	(625)	(1,345)	(1,970)
Operating Income	4,355	28,704	33,059
Non-Operating Revenues			
Operating Grants		13,339	13,339
Net Income	4,355	42,043	46,398
Equity - Beginning of Year	15,719	109,198	124,917
Equity - End of Year	$ 20,074	$ 151,241	$ 171,315

The above discretely presented component units of the State do not issue classified balance sheets; therefore, information regarding current assets and current liabilities is unavailable.

NOTE 16: RISK MANAGEMENT PROGRAM

The following describes the risk management programs administered by the State. There have been no significant reductions in insurance coverage from the prior year.

Health and Life Plans

Ark. Code Annotated § 21-5-401 et seq. changed its name, duties, and composition of the State and Public School Employees Life and Health Insurance Board (the "Board") and created the Employee Benefits Division ("EBD") within the Department of Finance and Administration. A.C.A. § 21-5-403 states that the State and Public School Life and Health Insurance Board shall be a policy-making body only. The executive director shall report upon request to the House and Senate Interim Committees on Insurance and Commerce regarding the state employees and public school insurance program. The Executive Director means the executive director of the EBD who oversees the daily operation of the EBD. The role of the EBD is that of managing the group health and life programs and other select benefit programs for active and retired state and public school employees. As required by A.C.A. § 21-5-405, the State and Public School Life and Health Insurance Board and the Executive Director take a risk management approach in designing the state employee and public school employee health benefit programs. In addition, the Board ensures that the state and public school employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board. Not included in this service are higher education, state police, and some portion of the states vocational and technical schools.

The Board provides the following employee benefits to State employees: comprehensive major medical that also includes basic dental, vision, and limited mental health; prescription drug benefit; basic and supplemental group term life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and a deferred compensation plan with the option to participate in one or both of the deferred compensation companies. The State employees are self-insured for medical health, group term life insurance and pharmacy claims. Beginning January 1, 2001, the State became fully insured for the medical health and group term life insurance.

Public school employees are offered the comprehensive major medical plan that also includes basic dental, vision, and limited mental health; prescription drug benefit; and the basic and supplemental group term life insurance program. Each school district obtains its own cafeteria plan and any other benefits that are offered to public school employees by their school districts. The public school group is fully insured for the medical health and group term life insurance and self-insured for pharmacy claims.

Basic group term life insurance and accidental death and dismemberment coverage of $5,000.00 is offered to all state and public school employees. The basic life insurance premium for state employees if $5.60 per month and is fully funded by the life vendor. The basic life insurance premium for public school employees is $0.65 per month and is fully funded by the life vendor. Supplemental coverage is offered to both state and public school employees. Supplemental life insurance premiums are bracketed by age for state employees and based on employee's annual salary for public school employees. The state and public school employee may also purchase dependent coverage.

Claim liabilities for the runout of self-insured medical health insurance plans for the State employees and the prescription drug plan for the public school employees and State employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	2001	2000
Claim liability, beginning of year	$ 21,023	$ 17,370
Incurred claims	86,756	144,335
Claims payments	(109,799)	(140,682)
Claim liability, end of year	$ 2,020	$ 21,023

The plans have not purchased any annuity contracts on behalf of claimants.

Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to $25 thousand per occurrence. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to $100 thousand per occurrence in state and $500 thousand per occurrence out of state. Certain State agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of commercial insurance settlements have exceeded insurance coverage.

State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $7.5 thousand without further approval while amounts exceeding $7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

State Workers' Compensation Plans

The State's Workers' Compensation Program (the "Program") was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at

June 30, 2001, including claims incurred but not reported, is estimated to be approximately $55.5 million and is recorded in the General Long-Term Debt Account Group as a component of claims and judgments payable.

The State also provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund ("Disability Trust Fund"). The Disability Trust Fund pays wage loss benefits in excess of $75 thousand per case. The employer's primary insurer is responsible for the first $75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 2001, is based on actuarial estimates of ultimate claim costs, for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund generally pays wage loss benefits for persons which experience a repeated injury of the same body part while employed by a different employer than that which he experienced the first injury. The purpose of the Second Injury Trust Fund is to encourage the employment of persons who have previously filed workers' compensation claims by protecting subsequent employers from wage loss claims arising from repeat injuries. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the WCC. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

	2001	2000
Claim liability, beginning of year	$ 170,202	$ 168,120
Incurred Claims	14,621	12,514
Claim Payments	(11,087)	(10,432)
Claim liability, end of year	$ 173,736	$ 170,202

Petroleum Storage Tank Trust Fund

The Petroleum Storage Tank Trust Fund ("Storage Tank Fund") was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain construction and spill protection and detection standards at the time of the release. The Storage Tank Fund will pay first party claims for corrective action up to $1 million per occurrence with a $7.5 thousand deductible as well as third party claims for damages up to $1 million per occurrence with a $7.5 thousand deductible. The Storage Tank Fund is funded by motor fuel taxes and fees paid by storage tank owners and operators. The first party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third party claim liability is estimated at the plan limits for each third party claim filed until actual damages are determined and the liability is recorded in the General Long-Term Debt Account Group.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

	2001	2000
Claim liability, beginning of year	$ 10,860	$ 8,445
Incurred Claims	12,059	5,349
Claim Payments	(4,161)	(2,934)
Claim liability, end of year	$ 18,758	$ 10,860

Higher Education Health Plans

The System and Arkansas State University ("ASU") sponsor self-funded health plans for employees and their eligible dependents. All five System campuses, all ASU campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration, and the System Foundation participate in the health insurance programs, which are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

	2001	2000
Claim liability, beginning of year	$ 13,548	$ 10,450
Incurred Claims	51,182	52,032
Claim Payments	(53,205)	(48,934)
Claim liability, end of year	$ 11,525	$ 13,548

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals which exceed specified limits. Such limits are $250 thousand and $100 thousand for the System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Primary Government -

Litigation **-** The State, its agencies and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $13.3 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $18.5 million.

The State is also involved in a federal school desegregation lawsuit. The State has accrued approximately $850 thousand for the settlement of these suits.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position.

The State is also involved in a lawsuit pertaining to the equalization of funds among the various school districts. If the State is found liable, it would have to increase future appropriations in an amount considered material to the financial statements.

Federal Grants **-** The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 2001, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

Loan Forgiveness **-** Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District ("LRSD"). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standard by which the test scores will be measured has yet to be determined by the parties. As of June 30, 2001, the State's loan receivable is $20 million and is recorded in the General Fund.

Construction and Other Commitments **-** At June 30, 2001, the State has commitments of approximately $1.25 billion for construction and other contracts. The Soil and Water Conservation Commission has approved $60.6 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2001.

Bond Guarantees **-** The AEDC Bond Reserve Guaranty Fund is used to guarantee principal and interest on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2001, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $37.2 million. AEDC has committed to guarantee $5.5 million in industrial development revenue bonds that have not closed at June 30, 2001.

Claims Incurred but not Reported **-** The State has established a liability for both reported and unreported insured events, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information and currently recognized trends affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

Compensated Absences **-** State employees earn vacation leave benefits on the basis of length of service time. Subject to certain restrictions, state employees are compensated for unused vacation time upon leaving the State's employment. Unused vacation time for employees of the governmental funds is accrued in the General Long-Term Debt Account Group.

Arbitrage Rebates - The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA have made provisions for revenues above the rebate limit which must be remitted to the Federal Government.

NOTE 18: SUBSEQUENT EVENTS

Primary Government **-** In July 2001, the Arkansas Highway and Transportation Department issued, on behalf of the State, Federal Highway, Grant Anticipation and Tax Revenue Bond, Series 2001A, in the amount of $185 million. The bonds are to provide financing for the cost of constructing and renovating improvements to interstate highways and related facilities in the State.

Subsequent to June 30, 2001, the Construction Assistance Revolving Loan Program issued approximately $38.1 million in Series A Refunding bonds.

Component Units **-** Subsequent to June 30, 2001, ADFA issued approximately $1.1 million and $45 million, in special obligation bonds in the Economic Development Program Fund and Multi-Family Housing Program Fund, respectively.

On September 7, 2001, HUD issued the Monitoring Report of the Home Program ("Monitoring Report") for the 1998, 1999, and 2000 program years. The report contained numerous findings, the most significant of which was the lack of documentation of environmental reviews. The Monitoring Report does allow ADFA to cure the inequities by either documenting compliance by completing an environmental review or obtaining statutory dispensation granted through congressional action. ADFA is in the process of obtaining environmental reviews on the projects as well as working with the United States Congress on the passage of a bill granting statutory dispensation (HR2620). The Monitoring Report did not disallow any cost associated with the lack of environmental reviews. Management of ADFA does not anticipate any disallowed cost as a result of the findings of this report.

In October 2001, ADFA's Board of Directors committed $1 million from the general fund in interim financing for the Home projects currently underway.

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